

Budgeting for Iraq and the GWOT

Testimony

**Committee on the Budget
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I am grateful to the Chairman and the Ranking Member of the Committee for inviting me to testify today on the critical and timely question of how we are paying for continuing military operations in Iraq, as well as Afghanistan, and elsewhere for what is called the Global War on Terror (GWOT).

This hearing is especially timely, given the arrival yesterday of the administration's proposed budget for FY 2008, which includes proposed emergency funding for the GWOT, and which is accompanied by the second emergency supplemental budget request for the GWOT in FY 2007.

Spending for the GWOT, roughly 80% of which is for the conflict in Iraq, is consuming a rapidly rising share of defense spending and of the overall budget. Including the second FY 2007 supplemental request, the budget transmitted to the Congress yesterday seeks \$245 b. for the GWOT, most of it for operations in Iraq. There is every possibility of a second emergency supplemental request later in FY 2008.¹ Since FY 2001, the United States has already committed over \$500 b. to this effort.² The new request would increase total spending for the GWOT by nearly 50% over all previous spending on these operations.

Were the Congress to approve all the requested funds, the overall defense budget would rise, correspondingly, to \$623 b. in FY 2008, an unprecedented level since the Vietnam War. While some will argue that defense spending remains low and inadequate for long-term defense needs, if we cannot provide military security for the United States at this level of spending there is something seriously wrong with planning and implementation in the Department of Defense.³

I want to address two areas this morning. The first concerns defense programs, the impact of using emergency supplemental and bridge funds on the integrity of the defense budget process, the quality of the justification provided for this funding, and the implications of the administration's proposal to expand U.S. ground forces to deal with the requirements of what they call the "long war" against terrorism.

The second area concerns the other, smaller part of GWOT funding – the international affairs budget, to which we often pay less attention. I want to discuss the adequacy of our budgeting for security and economic assistance related to the GWOT, and rising concern about the degree to which increased DOD programs and funding in this area may be distorting the tools of American statecraft.

¹ The President's FY 2008 budget document notes: "As activity on the ground evolves, the administration may adjust the requested amount or its allocation through a budget amendment or subsequent supplemental request."

² According to the Congressional Research Service, including the \$70 b. "bridge fund" for FY 2007, operations in Iraq, Afghanistan, and globally against terrorist organizations have cost \$507 b. More than 90% of this total is for defense activities. CRS, *The Cost of Iraq, Afghanistan, and Other Global War on Terror Operations Since 9/11*, No.RL33110, September 22, 2007.

³ The Congressional Budget Office has suggested that current "peacetime" defense budgets are inadequate to support defense plans by perhaps \$65 b. over the next two decades.

I will discuss each of these issues briefly, and am happy to elaborate on them in response to questions you and the other members of the committee may wish to raise.

The Implications of GWOT Spending for Overall Defense Budgeting

For the past eight budgets, the Department of Defense has requested emergency supplemental or “bridge” funding for the GWOT, outside of the regular defense budget. I have calculated that these emergency funds constitute a rising share of the total resources available to the Defense Department. The “emergency” share of overall DOD resources has risen from just under six percent in fiscal year 2001, to over 21 percent in FY 2006.

If Congress appropriates the full request for the second FY 2007 emergency supplemental this share would rise for 27% for FY 2007; appropriating the FY 2008 request would put that share at at least 23%, with the Pentagon likely to seek more emergency funding next year. In other words, roughly 25% of all the resources available to the Department of Defense are now being provided through the emergency funding mechanism.⁴

The continuing use of emergency supplementals is not typical in wartime. In the cases of the Korean and Vietnam Wars, war budgets have relatively quickly been integrated into overall DOD budget planning, as they have become the major activity in which the services are engaged.⁵ In the GWOT case, however, the Defense Department has, in effect, been running two parallel budget processes, one for the GWOT and the other for the regular defense budget. Continuing this practice over eight budgets has had a debilitating effect on the integrity of the defense planning and budget process in the Department of Defense.

Emergency and supplemental funding requests are not processed through the Planning, Programming, Budgeting, and Execution System (PPBES), the normal mechanism for peacetime or “regular” DOD budget planning. They are typically out of phase with the PPBES system. Deputy Secretary of Defense Gordon England provided guidance for the second FY 2007 supplemental in October, 2006, after funds had been appropriated for this year and well outside the PPBES scrub being done on the FY 2008 budget.

Members of this committee and the Armed Services committees have already expressed concern about this dual-track budget process. You have written to the Secretary of Defense urging that the Department comply with Section 1008 of the John Warner FY 2007 National Defense Authorization Act, requiring the administration to submit war costs simultaneously with the transmittal of the regular defense budget. After initially interpreting that provision as inconsistent with the President’s authorities, the administration has now agreed to comply with the provision, and the new budget

⁴ My calculations were done using CRS data in their report referenced above. Cross-checking with the new DOD budget request, the percentages are slightly different, but consistent: 23.1%, 27.3% and 22.7%

⁵ See Congressional Research Service, “Military Operations: Precedents for Funding Contingency Operations in Regular or in Supplemental Appropriations Bills,” Short Report RS22455, Washington, DC: CRS, June 13, 2005

transmits an estimate of FY 2008 war costs, along with the regular defense budget, as an additional “emergency” request.

The administration is to be commended for complying with this provision, after all. That said, the war budget was put together outside the PPBS process, meaning it did not undergo quite the same “scrub” as the rest of the budget may have had. As a result, it is very important for this committee and the rest of the Congress to scrutinize the DOD justification materials for the GWOT request in detail.

This intense scrutiny is important because, in planning terms, DOD has tended to treat the two budgets as fungible. This is the source of the negative impact emergency supplemental funding has had on the integrity of the PPBES process. Given the urgent timing for supplementals and the reality that they receive less scrutiny, there has been a tendency in the Department to seek, through emergency supplemental funding, programs that do not meet the reasonable test for a war-related emergency: that the requested funds meet urgent requirements that could not be anticipated in the normal budget cycle.

In recent years, emergency funding has been sought for the acquisition of equipment that has long lead times, unrelated to the urgent demands of the war, such as aircraft, helicopters, and ground vehicles. Funding has been sought, as well, for force planning changes, such as Army modularity, which also have long lead times and are eminently manageable through the PPBES planning process.

There needs to be a clear separation between such funding requests and the funding for the war. Unfortunately, the Defense Department has encouraged such an overlap. In his guidance for the preparation of the FY 2007 second supplemental Deputy Secretary Gordon England explicitly noted that “the ground rules for the FY ’07 Spring Supplemental are being expanded to include the Department’s efforts related to the Global War on Terror and not strictly limited to Operation Enduring Freedom (OEF) and Operation Iraqi Freedom (OIF).”

It will, therefore, be very important for the Congress to examine the GWOT requests closely in order to separate out items that are not directly related to the war effort.

This will be especially important, given the administration’s proposal to expand the size of our ground forces. I do not believe this ground force expansion has been adequately justified, as I have argued elsewhere. It is irrelevant to the stress the forces currently deployed in Iraq and Afghanistan are experiencing, which are painfully real. Expanded forces, which will be devilishly difficult to recruit, will not be ready for deployment in a time frame relevant to the current conflict.

More seriously, the Department has offered, at best, a thin justification for this expansion. Unless the nation is determined to engage in another Iraq-style invasion and occupation in the near future, it is hard to find a rationale for an expanded ground force. If the administration has the demands of the “long war” in mind, that mission requires small, agile, highly mobile forces of the kind we have in our Special Operations forces, not the

heavier infantry and mobilized brigades being proposed for force expansion. It is my view that the Pentagon has put the force expansion horse ahead of the strategic planning cart.

As a budgetary matter, force expansion has significant implications for the concerns of this committee. First, this expansion would be expensive, easily \$70-90 b. over the next ten years to recruit, pay, train and equip, with a permanent addition of at least \$15-20 b. a year to the defense budget after that time. The FY 2007 supplemental includes \$1.7 b. to support this end-strength increase and the DOD base budget for FY 2008 requests \$12.1 b. for expansion.

Second, forces and end strength drive the rest of the defense budget (with the partial exception of research and development programs). Whether it involves new training, new equipment, or new construction, the upward pressure on the overall defense budget growing out of this expansion will have been built in permanently.

This pressure is likely to be particularly stressful for today's defense planning, as contrasted with previous periods of defense budget growth. There was considerably less pressure on overall budgets from the defense buildup of the 1980s, because it was "investment" driven. From 1980 to 1987, the procurement share of the defense budget rose from 22% to 30%. The forces that triumphed in combat in both Gulf Wars used the results of that investment surge to do so. The research and development share of the defense budget also rose over those years from 9.9% to 12.2%, pointing to the next generation of procurement.

The current defense budget growth, however, has been "consumption" driven. The procurement share of defense spending has remained at a lower level of 18%, with R&D rising from 14% to 15%. Operations and maintenance has been the focus of this buildup, driven largely by the war requirements. Army and Marine ground force expansion will add to the "consumption-driven" character of defense budget growth.

What are the implications of this difference? If, as seems likely, the U.S. eventually withdraws from Iraq, the defense budget will come down. If the Army and Marine size has grown, but the overall defense budget is in decline, there will need to be bill-payers to pay for the ground forces, their training and their equipment. The bill payers could well be the other services, with particularly harsh consequences for their long-term investments in new platforms and technologies.

There are also implications for the overall federal budget growing out of this force expansion. This committee will face a difficult set of tradeoffs between the continuing costs of a larger ground force and the priorities you may wish to give such areas as education and health. The new budget foreshadows this problem. According to the budget request, 56.2% of discretionary spending in FY 2006 was committed to what is called "security spending" (defense, Function 150, and government-wide homeland security). By FY 2008, the "security" share rises to nearly 60%. Continued upward

pressure for these levels of security spending, driven largely by defense, will continue to put downward pressure on non-defense discretionary resources.⁶

I urge you to consider this broader issue of force expansion as you review the FY 2008 defense budget request.

The Implications for Diplomacy and Foreign Assistance

I also want to raise two issues with respect to the other part of our national security budget – Function 150 or International Affairs. In general, Congress has focused considerable attention in recent years on the defense spending committed to Iraq, but rather less attention to the smaller, but still considerable U.S. spending in foreign and security assistance in these countries, dedicated to training and equipping security forces and economic and social reconstruction and recovery.

It is my view that we typically tend to translate national security issues into “defense” issues, and tend to rely on the military tool of statecraft rather more than we do on our diplomatic and foreign assistance tools. Yet, given the critical contribution diplomacy and foreign assistance make to our national security, I think it important to focus on how these tools of statecraft and these fiscal resources are being used to meet our national security goals.

In the case of Iraq, while the US military plays an important role in near-term security for our operations and for the Iraq government, in the long-run U.S. diplomacy in that country and the region, and our security training and reconstruction assistance are likely to be the critical elements in restoring stability to that beleaguered country. The importance of diplomacy and assistance is underscored by the new budget request. By my calculations, there are \$6.3 b. worth of GWOT-related, non-defense programs in the FY 2007 emergency supplemental request, and another \$3.5 b. in the GWOT emergency budget for FY 2008, 95% of them in the international affairs budget function.⁷

There are two issues I want to raise for you in this area: first, the rapid and unanticipated growth in the fiscal requirement for Iraqi stabilization and reconstruction, with meager results on the ground and second, the growing Defense Department role and funding for programs that have, historically, been the responsibility of our other foreign affairs agencies.

First, as to the fiscal needs. The Special Inspector for Iraq Reconstruction has provided detail on US spending, which comes to nearly \$38.3 b. since the war began.⁸ This is larger than the \$18.4 b. figure frequently used, which includes only the first large appropriation for Iraq reconstruction and the Coalition Provisional Authority in late 2003.

⁶ The “security share is even larger, rising to 65%, if one includes emergency supplemental resources appropriated or requested for FY 2006- FY 2008. Including appropriated and requested emergency funding for the GWOT, US government budgets for “security” would rise for the first time to over \$1 trillion in FY 2007.

⁷ The non-international affairs funding comes to roughly \$300 m.

⁸ Special Inspector General for Iraq Reconstruction, *Quarterly and Semiannual Report to the Congress*, January 30, 2007, p.115.

The more accurate, higher, total, includes all spigots of US foreign assistance to Iraq, including \$26 b. of support for reconstruction (more than \$5 b. of which has been spent on security for reconstruction activities) and the more than \$12 b. in DOD-administered programs for local reconstruction activities (the CERP program) and the considerable effort to train and equip Iraqi security forces.

Focusing on U.S. appropriated funds, however, greatly understates the level of resources actually committed to Iraqi reconstruction. The total commitment of resources comes to nearly \$104 b., much of which has been or is being spent. This is nearly twice the \$55 b. estimate made by the World Bank/UN and the CPA in 2003.

Beyond the U.S. funds, the SIGIR notes that nearly \$50.5 b. in Iraqi funds have been committed to reconstruction, beginning with our use of \$25.7 b. in assets seized at the start of the war (captured funds, Iraqi accounts, and oil-for-food revenues). In addition, the government of Iraq has committed more than \$24.7 b. in its capital budget to reconstruction. As others have noted, some of these Iraqi funds, probably growing out of the higher world price for oil, remain on deposit with the NY Federal Reserve, rather than being invested in Iraq.⁹

The international community has also made commitments, though these have been slower to deploy, coming to over \$15.1 b., according to the SIGIR. Much of this is funding through the World Bank, International Monetary Fund, and United Nations, though the European Union, the United Kingdom, and Japan have also made considerable commitments.

To summarize, Iraqi reconstruction has already cost nearly twice what we once thought it would cost, and the results can be described, at best, as disappointing. As the SIGIR has put it:¹⁰

- Iraq's security forces developed more slowly than expected and the security environment has continued to deteriorate.
- Infrastructure security remains vulnerable.
- The capacity of Iraqi ministries to execute their capital budgets remains weak.
- The sustainability of completed IRRF projects remains a concern.
- Inconsistent coordination among the many U.S. agencies supporting Iraq's reconstruction has hampered the effective execution of the U.S. reconstruction program.

⁹ Karen DeYoung, "Doubts Run Deep on Reforms Crucial to Bush's Iraq Strategy," *Washington Post*, February 4, 2007, p.A16.

¹⁰ *Quarterly Report*, pp.3-5

In its new budget requests for FY 2007 and FY 2008, the administration seeks something on the order of another \$18 b. for training and equipping Iraqi and Afghani security forces, and emergency and long-term reconstruction assistance in the two countries. This committee will want to consider asking some hard questions about how programs will be changed to increase effectiveness, and whether they are executable, as planned, given the deteriorating security environment.

My second issue is about the long-term direction of U.S. security and foreign assistance policy, given the precedents being set in Iraq (and Afghanistan). The GWOT in those two countries has become a test bed for a new concept in U.S. foreign and security assistance. Increasingly, the Defense Department is expanding its role in this area, altering an historic practice of State Department (and AID) policy supervision (and implementation) for security and foreign assistance. The elements of this expansion are increasingly clear:

- The new emergency supplemental request for fiscal year 2007 includes significant funding – \$3.8 b. for Iraq and \$5.9 b. for Afghanistan (on top of the \$3.2 b. already appropriated last fall) – to train and equip (T&E) the Iraqi and Afghani militaries. The FY 2008 GWOT emergency request seeks another \$4.7 for these programs. This T&E program continues the practice since 2003 of funding such programs directly through the Defense Department, though the State Department has historically had policy lead on such programs as Foreign Military Funding and International Military Education and Training, and peacekeeping assistance to train militaries around the world for peacekeeping duties. The Iraq and Afghanistan T&E programs have already amounted to over \$15 b.
- The Defense Department is seeking authority to “globalize” and make permanent its authority to conduct such programs in order to stabilize and restore authority to ungoverned areas and deprive terrorist organizations of potential safe havens. A temporarily authorized global program began in 2006 with a \$200 m. funding ceiling for what are called Section 1206 programs, which rose to \$300 m. by fiscal year 2007. DOD may be seeking to expand this ceiling and make this authority permanent in the new budget.
- DOD also intends to seek permanent authority for a global version of its foreign assistance, program - the “Commander’s Emergency Response Program” (CERP). Through CERP, DOD has already spent nearly \$2 b. in Iraq alone, outside the IRRF and other bilateral foreign assistance programs being delivered under State Department and USAID authorities. The FY 2007 emergency supplemental seeks another \$456 m. in authority for the CERP in Iraq and Afghanistan, and the FY 2008 GWOT request would raise this ceiling to nearly \$1 b.
- DOD also intends to propose funding for two military education programs, outside of the IMET framework. The Counterterrorism Fellowship Program,

which already exists, “educates foreign military and civilians directly involved in the war on terror.” And DOD also plans to propose a “Stability Operations Fellowship Program,” which would provide “education and training in the areas of disaster response and preparedness, peacekeeping and peace enforcement, and stabilization and reconstruction missions.”

- DOD has spent billions of dollars since 2002 providing budgetary support for coalition governments assisting the United States in the global war with terrorist organizations. This support reimburses cooperating governments for goods, services, and the costs to them of providing basing rights for U.S. military operations against terrorists. The FY 2007 emergency supplemental seeks another \$1.0 b. for coalition support, while the FY 2008 GWOT emergency supplemental seeks \$1.7 b. for coalition support next year. These funds are provided outside of the Economic Support Funding (ESF) program State and AID have led for years, providing support to strategic partners around the world.

It seems to make sense for DOD to carry out such programs; they have the skills, logistics, equipment, large budget, and direct contacts to provide these things. The combatant commanders (COCOMS) can, and do argue that only they can truly understand the local needs and move with the speed needed to prevail in the high intensity threat environment of the so-called “long war” against terrorism.

The State Department is said to lack sufficient budget resources and trained personnel for such programs, is not used to administering them, and, in the case of USAID, is focused on long-term development programs, not security and reconstruction. Moreover, it is argued, Congress provides funding more readily to Defense than to State/AID, and attaches “directives” and “earmarks,” which constrain these agencies in responding to the emerging requirements of the GWOT.

There is some merit to all of these arguments. And there is some risk, as well. The military does not traditionally conduct foreign policy, and, in pursuit of the military mission, may not take into account the broad range of interests at stake in our relationship with other nations.

The State Department, in principle, has the perspective needed to embed such programs in our broader strategic relationships. Historically, State has been given policy leadership; the budgets for such programs are requested as part of the international affairs budgets, not as part of the defense budget, and Defense has had major input into shaping the program and defining the requirement. Although the emergency budget request language includes the “concurrence of the Secretary of State” in these programs, initiating them and shaping the policy context will move to Defense.

There is a clear risk in changing our historical approach. I would call one risk the “snowball effect”: the more we ask DOD and the military to do, the more they become responsible for our overseas relationships. Inevitably, DOD will want to expand the

authorities for which they are responsible, as they will seek this year. The more we expand DOD authorities, and underfund State and USAID for such activities, the less State and USAID have the credibility and retain the competence to carry out policy leadership and program administration in these areas. This trend risks becoming a self-fulfilling prophecy.

There is another risk inherent in moving in this direction. The past four years suggests we need be cautious about the capabilities of our military forces for carrying out such missions as democratization, nation-building, or economic reconstruction. But they do and will salute and step up to the task, if asked. However, there is a down-side for our military capability when we divert our forces to these non-military missions. The more we ask them to carry out these programs, the more we risk diverting them from their principal mission and core capability: deterring and fighting the nation's wars.

Using DOD and the military forces as "one-stop-shopping" for security, reconstruction, training, and nation-building runs the double risk of underfunding and disempowering our diplomacy and foreign assistance agencies, and, at the same time, distracting the military from their core mission.

There is a third risk. As we ask our military to become the leading edge of our international engagement, we are putting a security face on that engagement. However benign and well-intended our forces, for other nations and peoples this can create a backlash against our policies and our presence. In the end, leading with our military chin could have the effect of endangering, rather than increasing, American security.

While this is not fully within the jurisdiction of this committee, the resources we provide for such defense programs are your concern, as are the resources we as a nation commit to strengthening our diplomacy, public diplomacy and foreign assistance. I would urge the committee to consider these issues as it questions administration witnesses on the contents of the proposed FY 2007 and FY 2008 budgets for both 050 and 150, and to consider ways in which our non-military instruments of statecraft might be adequately funded and strengthened.

Thank you for the opportunity to testify on these critical and timely issues. I welcome questions you may have.